

City of Huntington Beach



**Adopted Budget
FY 2011/2012**

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City of Huntington Beach

Adopted Budget

Fiscal Year

2011/2012



Submitted by
Fred A. Wilson, City Manager

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City of Huntington Beach

City Council – 2011/2012



Joe Carchio
Mayor



Don Hansen
Mayor Pro-Tem



Connie Boardman
Council Member



Keith Bohr
Council Member



Devin Dwyer
Council Member



Matthew Harper
Council Member



Joe Shaw
Council Member

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City of Huntington Beach City Officials Adopted Budget FY 2011/12

Elected Officials

City Attorney Jennifer McGrath
City Clerk Joan Flynn
City Treasurer Alisa Cutchen

City Manager's Office

City Manager Fred A. Wilson
Deputy City Manager Paul Emery
Deputy City Manager Bob Hall

Department Directors

Community Services Paul Emery
Economic Development Bob Hall
Finance Lori Ann Farrell
Fire Patrick McIntosh
Human Resources Michele Carr
Information Services Jack Marshall
Library Services Stephanie Beverage
Planning and Building Scott Hess
Police Kenneth Small
Public Works Travis Hopkins

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City of Huntington Beach Organizational Chart Adopted Budget – FY 2011/12

THE PEOPLE

CITY CLERK

Public Support
& Elections

Records
Management

CITY COUNCIL
Mayor
Mayor Pro-Tem
City Council Members

**CITY
TREASURER**

Investments

**CITY
ATTORNEY**

Litigation

Advisory

CITY MANAGER

FIRE

Fire
Administration

Fire
Prevention

Emergency
Response

POLICE

Uniform
Division

Investigations
Division

Administrative
Operations

DEPUTY CITY MANAGER

ECONOMIC DEVELOPMENT

Economic
Development &
Redevelopment

Housing
Services

PLANNING & BUILDING

Planning

Code Enforcement
& Neighborhood
Prevention

Permit &
Plan Check
Services

Inspection
Services

PUBLIC WORKS

Engineering

Utilities

Maintenance
Operations

Transportation

General
Services

DEPUTY CITY MANAGER

COMMUNITY SERVICES

Beach
Operations

Marine
Safety

Recreation,
Human &
Cultural Services

Facilities,
Concessions &
Development

FINANCE

Accounting
Services

Budget
Management

Cashiering &
Collections
Services

Fiscal
Services

HUMAN RESOURCES

Risk
Management

Labor

Benefits &
Training

Recruitment &
Retention

INFORMATION SERVICES

Infrastructure
Systems

Customer
Support

Applications &
Database
Support

Public Safety
Systems

LIBRARY SERVICES

Facility Rentals
& Maintenance

Outreach &
Training
Services

Programs &
Youth
Services

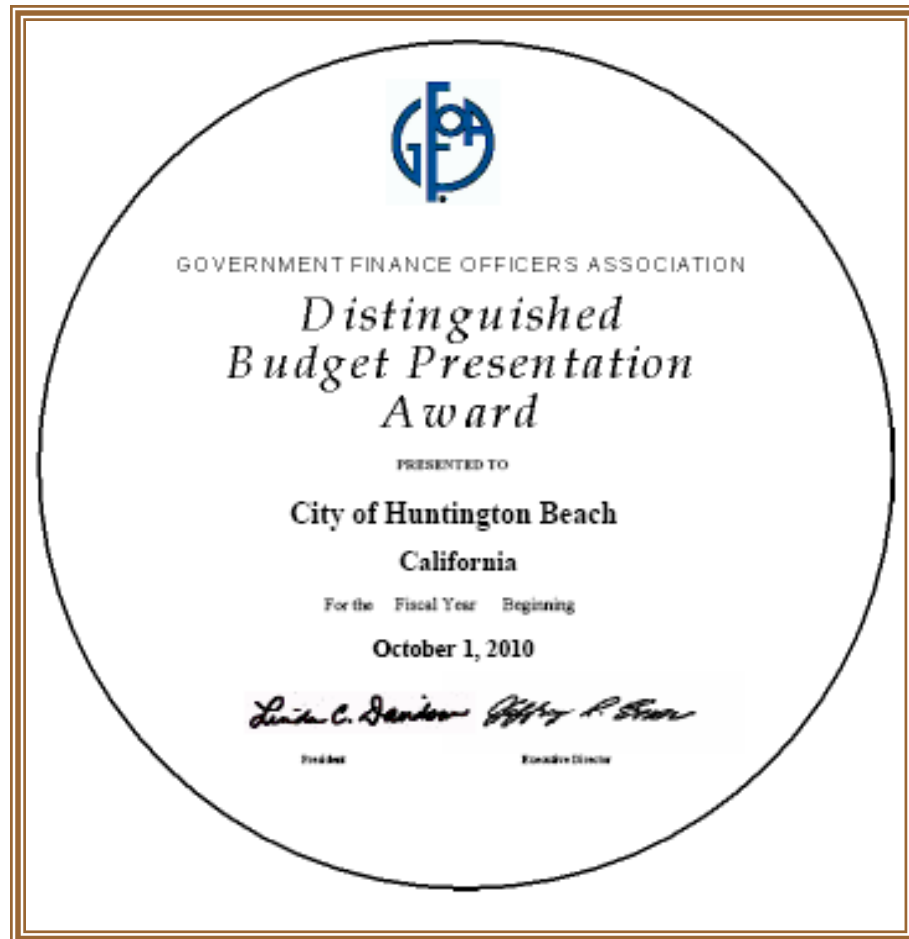
Public &
Information
Services

Technology &
Collection
Management

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City of Huntington Beach Distinguished Budget Award Adopted Budget FY 2011/12



The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Huntington Beach, California for the annual Budget beginning October 1, 2010. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and the City will be submitting the adopted budget to GFOA to determine its eligibility for another award.

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CITY OF HUNTINGTON BEACH

2000 Main Street, Huntington Beach, CA 92648

CITY MANAGER'S OFFICE

October 1, 2011

Honorable Mayor and Members of the City Council:

I am pleased to present to the City Council the adopted FY 2011/2012 budget. The FY 2011/2012 budget is a balanced budget, which will guide the City's operations in a fiscally conservative and prudent manner as our local and national economies emerge from a recessionary period. Although the adopted FY 2011/12 budget reflects decreasing City staffing and service levels in certain areas, the citizens of Huntington Beach will continue to benefit from an array of municipal services.

While the City's Strategic Plan and Goals have provided the guiding vision for the adopted FY 2011/2012 budget, it was also developed with an eye towards evaluating the most critical public services; in essence, determining which City services are "core", "important" or "added value". This exercise, which emanated from the January 28, 2011 Strategic Plan Update, has assisted departments in identifying solutions to balance the adopted budget for FY 2011/2012.

At the January 28, 2011 Strategic Plan Update, the City Council also revisited and refined the Strategic Plan, which includes three-year goals through 2012. Those January 2011 goals provided the framework for the adopted FY 2011/2012 budget. Specific examples of six-month strategic objectives from that session are listed below. Please note that a more recent Strategic Plan Update was held with the City Council on July 29, 2011. The results of that update will help guide the implementation of the budget throughout the next fiscal year.

Maintain Financial Viability and Our Reserves

- Conclude negotiations with the unions regarding increasing employee pick-ups of pension costs; and,
- Conclude negotiations with the unions for the establishment of a two-tier pension benefit system for new employees.

Maintain, Improve and Obtain Funding for Infrastructure and Equipment

- Identify sources of funding for infrastructure needs; and,
- Prioritize infrastructure needs from the 10-Year Capital Improvement Program (CIP) needs list and make recommendations to the City Council for action.

Maintain Public Safety

- Provide to the City Council a report on the use of new technology to enhance public safety.

Enhance Economic Development

- Declare that Huntington Beach is “Open for Business” and begin implementing the City’s 10 Point Business Friendly Plan;
- Survey existing businesses in Huntington Beach and identify opportunities for expansion and obstacles that inhibit or diminish their success, and report the results to the City Council; and,
- Complete the Downtown Specific Plan update and present to the City Council.

Improve Internal and External Communication

- Increase use of social media (Facebook and Twitter) as another tool to keep the public informed about their city.

FY 2011/12 Adopted Budget Summary

The adopted FY 2011/2012 budget is structurally balanced and totals \$312.2 million in All Funds, reflecting an almost four percent increase from the current year’s adopted All Funds budget. The adopted General Fund Budget, which provides for the majority of public services to the community, totals \$183.5 million, representing an increase of three percent from this year’s adopted budget. The increase is largely due to escalating pension costs that will increase by \$4.4 million in FY 2011/2012 alone.

To achieve a balanced budget in the General Fund, departments are reducing personnel and operating expenses by \$4.5 million. The personnel cuts, including positions eliminated due to PARS early retirement enrollments, decrease the citywide Table of Organization by 29.5 positions; and, an additional nine positions are defunded in the budget, for a total of 38.5 eliminated or defunded positions. Operating reductions are also included in the budget and have forced departments to think creatively and find ways to provide services more efficiently and effectively. In some cases, fewer services will be available to citizens including fewer positions in the Police Department, the elimination of day camps at Central Park, diminishing database subscriptions at the Library, less economic development and business development assistance, and outsourced Public Works services.

Investing in Our Future

Despite the challenges faced by the City, the need to maintain and replace the City’s fleet and equipment is one that is vital to the long-term sustainability of the City. Departments requested over \$7.0 million in equipment replacements for next year; however, the FY 2011/2012 adopted budget reflects less than half of that amount, or \$3.0 million. City Staff will continually work towards replacing equipment over time as the economy recovers and the City emerges from a recessionary period. The \$3.0 million dedicated to equipment replacement in the adopted FY

2011/2012 budget is \$1.0 greater than in the current fiscal year to ensure the City's aging, obsolete, and expensive-to-maintain equipment is replaced.

One of the major challenges of local governments is the lack of funding for infrastructure. Well-maintained streets, curbs, sidewalks, and gutters are signals to the business community, residents, and visitors alike of a community's economic vitality and success. The adopted budget increases the City's commitment to infrastructure improvements by \$1.3 million. This increased commitment will provide the resources to perform additional street repairs, maintaining the City's Pavement Condition Index at the current level. The additional \$1.3 million will be funded from the City's Capital Improvement Reserve, enabling other core services to continue to be supported by the City's General Fund operating budget.

The adopted FY 2011/2012 budget also maintains its emergency and other reserves. Specifically, the adopted budget retains an economic uncertainty reserve of \$19.7 million, or 10.7 percent of the General Fund budget. While it does not reflect the equivalent of two months of General Fund expenditures, it does meet minimum reserve level requirements. In addition, other reserve balances for equipment replacement, capital projects, PARS obligations and other liabilities equal \$20.3 million, for a total of \$40.0 million in combined total reserves. As many cities deplete or drastically reduce their one-time reserves to address ongoing structural budgetary problems, the City Council has demonstrated the fiscal prudence and leadership to make structural changes to the City's budget and maintain emergency reserves to protect against unanticipated needs. In this regard, the adopted General Fund FY 2011/2012 budget also reflects a \$581,300, or 0.3 percent, operating contingency to protect against additional State raids on local revenues and the potential for a "double dip" recession.

The development of the FY 2011/2012 budget is one that has been challenged by many external factors such as the State of California's budget crisis and a fledgling economy. City staff has worked tirelessly to meet these challenges head-on while continuing to provide the citizens of the City of Huntington Beach with a local government that is responsive to their needs.

As Ralph Waldo Emerson once said, "Can anybody remember when the times were not hard and money not scarce?"

Sincerely,

A handwritten signature in black ink, appearing to read 'Fred A. Wilson', with a stylized, cursive script.

Fred A. Wilson
City Manager



City of Huntington Beach Budget Message Fiscal Year 2011/2012

The City of Huntington Beach's Adopted Budget for FY 2011/2012 is a balanced budget, addressing the complexities of a struggling economy while being forced to respond to continuing State raids on local revenues and increasing pension and labor costs. FY 2011/2012 marks the fourth consecutive year of budget cuts, signaling the City's resolve to make tough decisions during difficult times, while maintaining core public services that make Huntington Beach a great place to live, work, and play.

Economic indicators have demonstrated a tenuous economic recovery that has shown slight improvement in certain areas of the economy while continuing to lag in other important areas such as the real estate market and the job market. Early signs indicate the economy may have bottomed out in Fiscal Year 2008/2009. However, the City must maintain its vigilance to protect against the potential for a "double dip" recession, additional State raids of local revenues, or other unanticipated revenue shortfalls.

On a positive note, the City of Huntington Beach has experienced a slight rebound in its General Fund revenue; a welcome respite from the precipitous mid-year declines experienced in FY 2008/2009 and FY 2009/2010. Improved sales tax revenue and Transient Occupancy Taxes are at the heart of the local economy rebound as consumer confidence rises from all-time lows and the Tourism and Hotel Industry began its ascent out of one of the worst periods in our nation's history.

While the trend in revenues is more positive than in previous fiscal years, the City will be experiencing a large increase in its CalPERS payments and other benefits costs in FY 2011/2012. City-paid pension costs will increase by \$4.4 million, or 21.3 percent, over the current fiscal year bringing total City funded pension costs to \$24.7 million. These increases in pension costs have forced the City to reconsider its current pension formulas, including the creation of new tiers and increasing the amount that employees pay to finance their pensions.

The FY 2011/12 budget continues cost-saving strategies used in recent fiscal years' budget development processes including continuing a hiring freeze for a fourth year and reducing staffing and operating expenditures. With a fourth consecutive year of cuts, residents will experience a decline in services provided by the City.

The FY 2011/12 adopted budget totals \$312.2 million, a four percent increase from the FY 2010/11 adopted budget. The General Fund adopted FY 2011/12 budget is \$183.5 million, a three percent increase from the FY 2010/2011 adopted budget.

The following summary presents details on expenditures and revenues for the General Fund, Enterprise Funds, and Special Revenue Funds. In addition, the Capital Improvement Program (CIP) projects are highlighted and a discussion of external budgetary issues facing the City is presented.

General Fund

Expenditures

To balance the FY 2011/2012 General Fund adopted budget, departments were required to make reductions to their operating budgets including reducing staff, cutting back overtime and temporary staffing, and making reductions to operating expenses. Total adopted General Fund expenditures equal \$183.5 million, supported by \$182.9 million in structural General Fund revenue and \$1.3 million in Capital Improvement Reserves.

Presented below are the adopted FY 2011/2012 General Fund Appropriations – along with historical information by department:

	Total Actuals FY 2007/08	Total Actuals FY 2008/09	Total Actuals FY 2009/10	Adopted Budget FY 2010/11	Projected Actuals FY 2010/11	Adopted Budget FY 2011/12
City Council	294,790	295,024	301,260	306,368	302,017	298,819
City Attorney	2,771,022	2,736,425	2,656,638	2,492,579	2,273,422	2,161,624
City Clerk	991,835	1,083,846	867,727	1,023,601	872,148	707,537
City Treasurer	1,357,483	1,308,311	1,531,682	1,379,285	1,159,914	133,331
City Manager	1,587,592	1,839,369	1,652,334	1,584,073	1,544,426	1,547,745
Community Services	13,921,467	14,042,107	13,328,026	12,939,977	12,620,862	12,731,959
Economic Development	1,750,030	1,776,573	2,401,531	1,484,002	1,555,929	1,596,488
Finance	11,808,094	10,685,108	10,560,473	4,320,488	3,796,490	5,014,722
Fire	26,687,055	33,133,622	32,397,631	32,499,749	33,672,198	33,159,427
Human Resources	4,724,873	4,729,332	5,208,887	6,185,520	4,897,710	4,842,549
Library Services	4,337,214	4,587,646	4,505,981	4,556,736	3,991,758	4,156,349
Information Services	6,741,303	7,339,358	6,781,671	6,312,848	6,006,452	5,844,245
Planning and Building	7,699,854	7,190,275	6,329,750	6,352,318	6,595,285	6,177,166
Police	56,014,342	59,036,474	57,569,492	59,334,233	59,293,524	58,868,831
Public Works	21,874,109	19,623,676	17,438,364	17,494,750	17,350,919	20,875,437
Non-Departmental	21,888,303	17,583,725	14,997,797	19,672,021	24,057,003	25,431,749
	184,449,366	186,990,870	178,529,245	177,938,548	179,990,057	183,547,977

Total staffing and operating reductions to achieve a balanced budget total \$4.5 million for FY 2011/2012. The vast majority of these reductions are recurring and will assist to keep costs down in future fiscal years.

Included in the Non-Departmental budget is \$3.0 million for equipment replacements. This has steadily increased over the past two fiscal years from \$1.0 million in FY 2009/2010, to \$2.0 million in FY 2010/2011, to the recommended \$3.0 million in FY

2011/2012. These increases are necessary to replace the City's aging equipment as it becomes obsolete over time or becomes too expensive to repair and maintain.

Revenue

General Fund revenue for FY 2011/2012 is projected at \$182.9 million, an almost three percent increase from the adopted FY 2010/2011 budget. General Fund revenue is derived from a variety of sources including property, sales, utility, and transient occupancy taxes (TOT), fees and permits; concessions and parking as well as other revenue streams. Projected revenue increases are largely driven by increases in sales tax and TOT taxes signaling a slight rebound in consumer confidence and tourism.

Property Tax, the City's single largest revenue source, reflects a modest 0.7% increase. Property tax revenue is projected to total \$68.4 million in FY 2011/2012 including the State of California's triple flip reimbursement, in which the State repays sales tax taken from the City in the form of property taxes. Given the struggling real estate market, it is anticipated property tax revenue may be the last to rebound from the effects of the Great Recession as existing foreclosures and continuing property re-assessments keep tax receipts at depressed levels.

Sales tax is expected to comprise about 12% of the overall budget for FY 2011/12 with an estimated \$22.8 million in projected revenue, reflecting a four percent increase over amounts expected in FY 2010/11. Despite rising gas prices, continuing volatility in the housing market, and high unemployment rates, consumer spending has helped to push the economic recovery through FY 2010/2011. It is anticipated this trend will continue through next fiscal year, although continued vigilance will be necessary to ensure a double-dip recession does not unexpectedly emerge.

Transient Occupancy Tax (TOT), a ten percent tax imposed on lodging facilities within the City, is projected to increase as well from the current year's projected receipts of \$6.2 million to \$6.5 million. This is due in large part to the modest rebound in the hotel industry. Huntington Beach has experienced an increase in the average daily room rates of 5.1% while occupancy is up by 9.4%. This bodes well not only for transient occupancy tax revenue, but also for businesses in Huntington Beach who will benefit from the increased number of shoppers in town.

In other revenue categories, licenses and permits are projected to experience a slight increase of 2.6% over projected FY 2010/2011 revenues. The majority of other revenue sources are projected to remain relatively flat as the economy slowly emerges from the recession of 2009.

Enterprise and Special Revenue Funds

Enterprise funds are proprietary funds supported by user fees and charges. The rates charged to customers for these services cover the costs of operations, maintenance, and financing of related capital assets. The City maintains four enterprise funds: Water, Water Master Plan, Sewer Service, and Refuse Collection.

Expenditures for FY 2011/2012 total \$68.6 million representing a three percent increase from the FY 2010/2011 adopted budget. This increase is due to the amount of funds needed for the purchase of equipment and capital projects currently underway. Due to the complexity and number of projects, the annual budgets tend to fluctuate significantly between fiscal years.

	Total Actuals FY 2007/08	Total Actuals FY 2008/09	Total Actuals FY 2009/10	Adopted Budget FY 2010/11	Projected Actuals FY 2010/11	Adopted Budget FY 2011/12
Water	31,136,510	32,905,696	33,382,618	45,076,404	56,215,227	40,744,275
Water Master Plan	2,465,399	1,515,502	1,519,709	974,433	4,656,567	2,681,398
Sewer Service	7,121,698	7,358,551	6,575,198	9,663,769	13,914,819	14,368,866
Refuse Collection	10,533,441	10,551,808	10,543,766	10,860,597	10,768,879	10,851,780
Fund Total	51,257,049	52,331,557	52,021,291	66,575,203	85,555,492	68,646,319

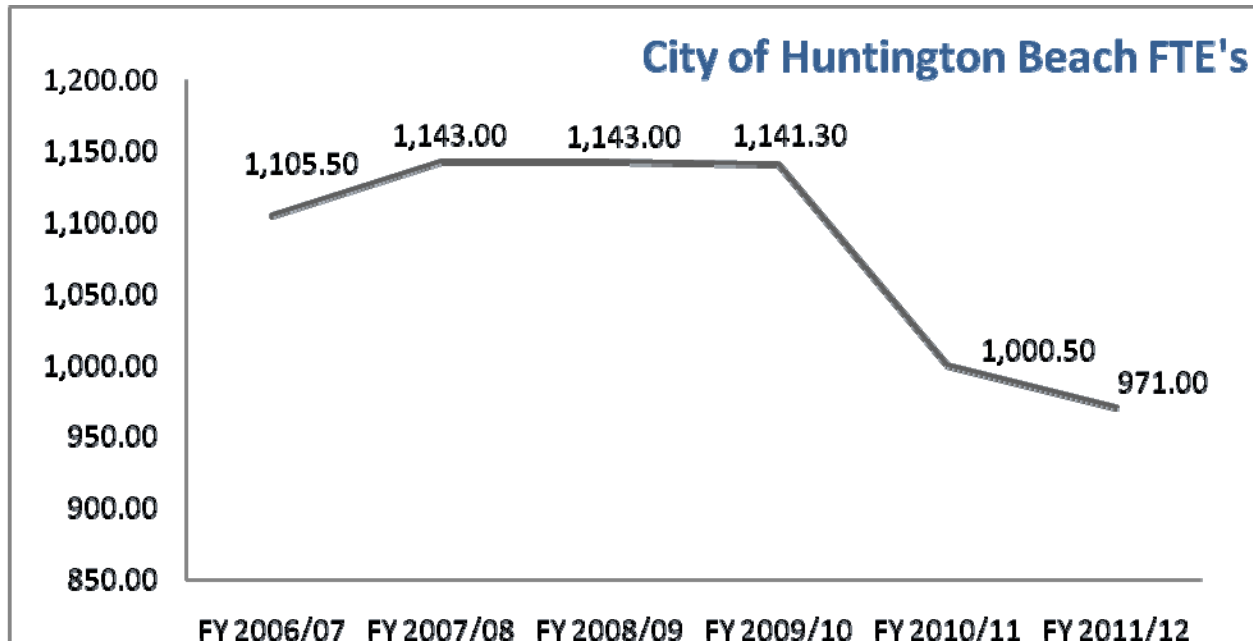
The City also maintains several Special Revenue Funds, which are funding sources legally restricted to a specific purpose. An example of a Special Revenue Fund is the Gas Tax or Measure M Fund, which limit expenditures to street and transportation improvements only. Special Revenue Funds total \$7.5 million in FY 2011/2012.

	Total Actuals FY 2007/08	Total Actuals FY 2008/09	Total Actuals FY 2009/10	Adopted Budget FY 2010/11	Projected Actuals FY 2010/11	Adopted Budget FY 2011/12
Air Quality Fund	147,081	207,167	416,581	352,597	392,035	584,509
Traffic Impact	5,176,602	6,345,856	19,386	106,470	476,854	0
Gas Tax	7,081,035	6,331,516	900,000	3,746,000	3,570,661	3,719,980
Park Acquisition and Development	1,308,077	804,468	1,833,033	2,459,147	2,975,352	828,494
Measure M	444,997	5,567,560	2,611,221	2,189,316	3,403,133	2,367,237
Fund Total	14,157,792	19,256,567	5,780,221	8,853,530	10,818,035	7,500,221

Organizational Staffing

During FY 2010/2011, the City underwent a comprehensive reorganization resulting from the early retirement of 102 City employees and other staff reductions that eliminated a total of 135.75 positions from the City's Table of Organization. This resulted in 996.5 full time equivalent positions as of FY 2010/2011. As a result of the reorganization, two departments; Building and Safety, and the Planning Department, were restructured into one department providing additional cost efficiencies.

The City also transitioned from a full-time City Treasurer to a part-time City Treasurer. This change resulted in approximately \$100,000 in annual savings to the General Fund and all cashiering, collections, and disbursements operations were transferred to the Finance Department. The City Treasurer's Office retains oversight of the City's investments and citywide portfolio holdings.



As part of the adopted budget recommendations, 29.5 positions have been eliminated from the City's Table of Organization throughout All Funds. An additional 9 positions are defunded in the Police, Fire, and Community Services Departments generating a total of 38.5 eliminated or defunded positions. Over the past four years, the City has reduced the workforce by a total of 172 positions, or 15 percent, from a high of 1,143 Full Time Equivalents (FTEs) in FY 2008/2009 to 971 FTEs in FY 2011/2012.

Capital Improvement Program

The Capital Improvement Program (CIP) identifies and budgets for major public improvements to the City's infrastructure over a five year period. The program is reviewed and updated annually and identifies funding sources and project schedules, as well as the project's relationship to the Strategic Plan.

The adopted FY 2011/2012 budget includes new appropriations of \$29.7 million for various infrastructure projects. In addition to these new appropriations, there is \$5.0 million in funding for continuing projects that started in FY 2010/2011 or earlier.

Projects for the Water, Water Master Plan, and Sewer Service enterprise funds correspond with the adopted master plans and major maintenance programs. Planned sewer improvements include design of one lift station, reconstruction of another, and the reconstruction of the Warner Avenue Gravity Sewer and Lift Station "C".

State Gas Tax and Proposition 42 funds will be used to rehabilitate four arterial highway segments consistent with the City's Pavement Management Plan. Measure M funds will be used for a number of bridge design and rehabilitation projects. Other transportation improvements, funded in part by grants, include right-of-way acquisition for widening Atlanta Avenue; design engineering for installation of turn lanes; and signal and curb ramp upgrades.

Park projects include architecture and engineering funding for the reconfiguration of Wardlow Park and completion of an Environmental Impact Report and Remedial Action Plan for the cleanup of the former gun range at Central Park.

Lastly, the CIP includes an additional \$1.3 million in funding for street repairs to be funded from the Capital Improvement Reserve, enabling the City to maintain its current Pavement Condition Index.

Issues Facing the City Budget

Redevelopment "Pay-to-Play" Program

The State's FY 2011/2012 adopted budget included the elimination of Redevelopment Agencies throughout the State of California. Assembly Bill X1 27 allows for the creation of an Alternative Redevelopment Agency program. In order to participate, agencies must make "voluntary payments" to avoid elimination and takeover by the County's "Successor Agency." In the case of the Redevelopment Agency of the City of Huntington Beach, this FY 2011/2012 payment will be \$6.8 million with payments in the out-years totaling \$1.6 million annually.

City management has developed a multi-pronged approach to reduce spending and generate sufficient revenue to make the required State "ransom" payment required to secure the repayment of over \$85.5 million in loans to the City's General Fund and other funds. However, certain sacrifices still need to be made including significant cuts to staffing and operations in order to salvage the Agency. The Agency will also need to eliminate the annual 20 percent housing set-aside to make the required State payment.

Vehicle License Fee Takeaway

In a last ditch effort to balance its budget, the State also raided all Vehicle License Fee (VLF) fees received by cities throughout the State; a complete violation of Proposition 1A and Proposition 22 ballot initiatives approved by California voters to protect local revenues. This will impact the City's General Fund by \$550,000 in FY 2011/2012. Anticipated increases in other General Fund revenues will help to offset this decrease. As a result, the adopted General Fund budget reflects a \$581,300, or 0.3 percent, contingency to protect against unanticipated revenue shortfalls, additional State raids on local revenues, and the potential for a "double dip" recession.

CalPERS, Pension Reform and Unfunded Liabilities

FY 2011/2012 reflects the first year of CalPERS' multi-year effort to recoup the catastrophic market losses it incurred in FY 2007/2008 and FY 2008/2009. Pension cost increases of \$4.4 million across all funds reflect the first phase of large multi-year PERS increases that will plague the City's budget over the next several fiscal years. As of July 1, 2011, the City's total contribution rate (including both the "Employee" and "Employer" shares) equates to 43.2 and 23.3 percent of the public safety and miscellaneous payrolls respectively, a dramatic increase from the current year.

For the City's retiree medical program, CalPERS has approved three asset allocation strategies which may be used by employers to pre-fund their future retiree benefit costs between the standard 7.75 percent and 6.61 percent. To ensure fiscal prudence, the adopted budget reflects the most conservative asset allocation strategy with expected returns of 6.61%. The adopted budget funds the Annual Required Contributions for its other defined benefit plans consistent with recommendations from its outside actuaries.

Conclusion

The FY 2011/2012 adopted budget is a structurally balanced budget that reflects tough decisions and a reduced workforce, while still protecting core public services. While rising labor and pension costs and a struggling economy pose significant challenges, they also pose significant opportunities: opportunities to restructure public services; opportunities to reorganize the workforce; opportunities to re-engage the public; and opportunities to renegotiate with employees to cut costs while providing the best quality services possible.

Despite the challenges, the FY 2011/2012 adopted budget also increases amounts spent on bricks and mortar helping to repair the City's infrastructure and with it, the City's economic vitality and public image.

The adopted budget also protects the City's Redevelopment Agency, ensuring local receipt and control of almost \$17.4 million in property taxes annually, and the repayment of \$85.5 million in loans owed to the City by the Redevelopment Agency.

Finally, the adopted budget includes employee concessions that will help reduce future pension costs and stem the tide of rapidly escalating unfunded liabilities.

Each fiscal year provides a new opportunity to reinvent our local government, the services it provides and the priorities it funds. I am confident we will continue to meet current and future challenges head on and find new opportunities to create a stronger and more resilient City of Huntington Beach.